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SIPDIS

SENSITIVE

TO AMBASSADOR REICH FROM AMBASSADOR WATT

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SUBJECT: SCENESETTER: AMBASSADOR OTTO REICH'S VISIT TO PANAMA

1. (U) Embassy Panama welcomes Special Envoy for Western Hemisphere Initiatives Ambassador Otto Reich on his January 17 - 24 visit to Panama. You will have the opportunity to reiterate the Ambassador's good governance message to GOP officials, including Panamanian President Mireya Moscoso, private sector representatives and local media. Your visit highlights our governments' mutual focus on the strategic issues of enhancing counterterrorism capabilities, combating international criminal networks and expanding trade and investment. Expectations regarding the upcoming negotiations on a bilateral free trade agreement (FTA) with the US will reign paramount in the minds of many of your interlocutors. It is worth noting that Panama was an early member of the Coalition of the Willing, has signed and ratified a bilateral Article 98 Agreement, and supported the USG at the WTO Ministerial in Cancun, Mexico. Panama has proved itself a good friend and close ally.

A Brief History

2. (U) From its founding in 1903 until 1968, the Republic of Panama was a constitutional democracy dominated by a commercially oriented oligarchy focused on Panama as an entrepot for international trade. In October 1968, Dr. Arnulfo Arias Madrid-- the deceased husband of current Panamanian President Mireya Moscoso-- was elected to and deposed from the presidency for the third time. General Omar Torrijos (d. 1981)-- the deceased father of current opposition leader and presidential candidate Martin Torrijos-- became dictator and was succeeded in infamy by General Manuel Noriega. On December 20, 1989, former President George H.W. Bush ordered the US military into Panama to restore democracy, protect AmCits and their property, fulfill US treaty responsibilities to operate and defend the Canal, and bring Noriega to justice. Noriega is still serving a 30-year sentence in Miami for drug trafficking. Panama has twice since 1989 held free and fair elections, transferring power from/to opposition parties.

May 2004 Elections

3. (U) Panama will hold its next national elections on May 2, 2004. Candidates are vying for the presidency, 78 legislative seats, and all mayoral and local representative positions. Democratic Revolutionary Party (PRD) candidate Martin Torrijos maintains a small lead over third-party candidate and former Panamanian President Guillermo Endara (1989 to 1994). Both are well ahead of ruling Arnulfista party candidate and former Foreign Minister Jose Miguel Aleman (1999 to 2003) and minor Democratic Change (CD) party candidate Ricardo Martinelli. You will meet with all four presidential contenders. Panama's elections should not warrant extensive monitoring or observation.

A Mixed Record

4. (SBU) Since the turnover of Canal operations and US military bases in 1999, Panama has had a mixed record of economic success. The Canal is run more efficiently, safely and profitably than under US administration, and Canal-related industries, especially cargo transshipment through ports at both ends of the Canal, have boomed. But Panama's overall economy went flat when nearly 30,000 US military personnel and their dependents left during the late 1990s, and the 2001 global recession has perpetuated the country's

estimated 13.4% unemployment. Also, Panama has failed to attract large investments into the former Canal Zone. Poverty, economic disparity, and unemployment are arguably the biggest internal challenges facing Panama today. More recently, the economy appears to have picked up, primarily as a result of tax incentives given to a now booming construction sector.

Towards a Democratic Culture

15. (SBU) Ambassador Watt's September 29 speech to Panama's Chamber of Commerce, Industry and Agriculture, launching Embassy's Good Governance Initiative (GGI), resonated firmly with Panamanians and generated front-page headlines. Venality, conflict of interest, nepotism, and lack of transparency are ingrained in Panama's political culture and institutions. Panama's "spoils system" allows politicians to use the entire state bureaucracy as a patronage base. The country's criminal libel laws, left over from military rule, impose enormous costs and risks on whistle-blowers. Legislative immunity is often abused, as elsewhere in the region. Embassy currently supports good governance activities directed toward judicial reform, civic education, business ethics, and strengthening anti-corruption prosecutors' institutional capacity. You will have a number of opportunities to reiterate our GGI message through local media outlets.

Our Third Border

16. (SBU) Panamanians have become increasingly willing to accept mil-to-mil security training, equipment and other assistance to enhance their capabilities to protect the Canal and borders. Although the present terrorist threat to the Canal is considered low, Panamanian planning, layered defenses and security resources are generally well regarded. Continued US training, equipment and other assistance are vital to preempt a major terrorist attack. Panama has committed to an ambitious maritime security agenda, which should help it meet new obligations under the International Maritime Organization's (IMO) International Shipping and Port Security (ISPS) Code by the July 1, 2004 deadline. Panama's ship registry blossomed from the third largest in the world in 1990 to the largest in the world by 2002, comprising nearly 7,000 large commercial vessels. Of all foreign flagged vessels arriving at US ports, 27% are Panamanian. About 13% of US ocean-going cargo transits the Canal each year. Panama's seafarer registry has licensed approximately 400,000 crewmembers. And port services grew dramatically from about 200,000 containers per year in the early 1990s to almost two million by 2002, giving Panama Latin America's leading port complex.

Fighting International Crime

17. (SBU) Law enforcement cooperation with Panama is excellent. The Moscoso Administration set up a new, GOP-interagency counternarcotics vetted unit; expanded upon the basic shiprider agreement to facilitate maritime/air operations in pursuit of drug, arms and explosives smuggling (and may soon include WMD); expedited maritime drug prisoner transfers to USG custody (saving U.S. taxpayers US\$1 million per event); and captured and expelled seventeen fugitives from US justice (most recently, on January 14, Colombian drug kingpin Arcangel de Jesus Henao Montoya, wanted in New York for smuggling five tons of cocaine). Panama is working much more closely with Colombian President Uribe's government against narco-terrorists. The GOP has also welcomed USG assistance-- DOD special operations forces (training National Police (PNP) border units) and AID community development (enhancing productive capacity and governmental presence in the Darien border province).

18. (U) The GOP revamped its legal and administrative structures to fight money laundering, becoming a model for other countries, such as Russia, that are trying to bring their regimes up to grade. Panama assisted the USG in the prosecution of money laundering cases and provided crucial information against former Nicaraguan President Arnoldo Aleman. However, at the 2004 Summit of the Americas in Monterrey, Mexico, several hemispheric neighbors chided Panama for recently granting "asylee" status to a former Ecuadorian cabinet minister, who is charged with embezzlement

of government funds.

International Trade and Investment

19. (SBU) Economic issues top Panama's agenda with the US. First, for political and economic reasons, President Moscoso is pushing for quick action on a bilateral FTA. Second, the GOP has long argued for Panama's re-designation from a "near foreign port" to a "distant foreign port," under the US Passenger Vessels Services Act (PVSA), in order to capture a larger share of the cruise ship trade. The USG is studying the possibility of a re-designation. The GOP estimates that up to US\$50 million per year could be gained for Panama's growing tourism sector. Third, over the last several months, we have seen a marked improvement in the GOP's willingness to make progress on a number of US investment cases, to address bilateral trade issues, including agricultural concerns, and to enhance cooperation/coordination in regional and multilateral trade fora. The USG has asked Panama to continue its progress on resolving investment disputes and improving its investment climate through responsiveness to investor concerns, clear rules of the game, predictability, and transparency in decision-making. During your visit, you will have the opportunity to meet several private sector representatives to solicit their views on these issues.

Biography: Mireya Moscoso

10. (U) Mireya Moscoso is President of the Republic of Panama and leader of the Arnulfista Party. In the 1999 national elections, she defeated Democratic Revolutionary Party (PRD) presidential candidate Martin Torrijos by seven and a half percentage points (44.9 percent to 37.6 percent). Moscoso took office on September 1, 1999. Moscoso was born on July 1, 1946, in Panama City, but was raised in the small coastal town of Pedasi in the southwest province of Los Santos. At age 18, Moscoso met former Panamanian President Arnulfo Arias Madrid in 1964, who was 45 years her senior, and the two fled to Miami following the 1968 coup d'etat. They were married in the US in 1969 and lived in exile until 1978. Moscoso served as Arias' personal secretary and political understudy until his death in 1988.

11. (U) Moscoso's formal post-secondary education includes English and computer courses and an Associate's degree in Interior Design from Miami Dade County Community College. She has a young teenage son Ricardo, whom she adopted during her four-year marriage to former Arias coffee plantation manager Ricardo Gruber. She owns a large home in Panama City, but prefers to spend time at the coffee plantation and cattle ranch in the western province of Chiriqui, which she inherited from Arias. Moscoso understands English well but prefers Spanish.

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